

WORLDWIDE SECURITIES SERVICES

Public Funds Collateral Management

A full range of tailored electronic reports to enable Deposit Banks and Municipal Entities to easily track and reconcile collateral positions

JPMorgan's Public Funds Collateral Management ("PFCM") product, developed for the U.S. market, offers a premium service for the efficient optimization, control and reporting of collateral assets managed against municipal or public deposits. While individual states have different collateral requirements for public deposits, the service is capable of verifying that collateral assets are being held in accordance with the requirements of most states.

For both the Deposit Bank and the municipality, PFCM provides a level of centralized, timely, accurate, controlled and efficient reporting that stands out in the market.

JPMorgan's technology enables the Deposit Bank to efficiently utilize its collateral assets while conforming to the requirements of the governing Collateral Pledge and Control Agreement.

A service that pays for itself

One of the key benefits of PFCM to the Deposit Bank is that it helps optimize the use of collateral and resources.

Any collateral not required to collateralize a deposit can be released back to the financial institution for alternative business applications.

Key benefits

- Enables Deposit Banks and Municipalities to easily track and reconcile collateral positions
- Safekeeps all collateral pledged by the Deposit Bank in a custodial account established for the benefit of the Municipality
- Provides a highly automated technology platform -- Comet2 -- that allows clients to efficiently allocate, utilize and invest collateral
- Reduces the need for manual intervention and slows counter-parties to limit expensive overhead inherent in managing collateral portfolios

Outsourcing of the collateral management function to JPMorgan allows the Deposit Bank to collateralize deposits in a controlled manner. The Deposit Bank's operational resources are freed up to concentrate on the core business of the firm, while still adhering to the reporting needs of the client and state.

Premium technology

JPMorgan's proprietary Comet2 (Collateral Optimization Movement Engine Technology) technology provides an efficient operating platform which facilitates smooth, accurate and timely collateralization of municipal funds. Comet2 determines eligibility of pledged assets and applies "haircuts" per the

terms of the collateral agreement, issues shortfall (margin) notices, services assets being held (principal and interest, corporate actions), and calculates daily mark-to-market of asset positions.

Comet2 allows the Deposit Bank to set a Collateral Allocation Ranking for the optimization of excess collateral. The Comet2 system also provides the Deposit Bank with an automated Deposit Amount facility which allows for hundreds, if not thousands, of Deposit Amounts to be uploaded/downloaded electronically.

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To learn more, contact your JPMorgan representative or call Gennaro Contella at 212-623-0545 or Dick Dervan at 212-623-0523. Information about JPMorgan services can be found at jpmorgan.com/wss.

Automated and detailed reporting

Complete reporting packages allow summary and detailed breakdown of all accounts, holdings, asset types, prices and requirements in an automated environment. All reports can automatically be generated and accessed via either a Web portal or an auto-fax functionality. Municipal Entities will also be sent detailed reports confirming the holdings of collateral against their positions. Bespoke reporting will be considered on a state-by-state basis where reports need to be sent to state controllers in a pre-defined format.

To the Municipal Entity, JPMorgan offers efficient Web or fax-based reporting, detailed breakdowns of collateral and market prices, and the knowledge that collateral requirements from each individual agreement will be met in a controlled, automated environment.

The PFCM product supports a full range of collateral management and asset services, including asset eligibility testing, principal and interest payments and corporate actions. Comet2 can test eligibility on a full range of asset types, including government securities, supranational bonds, cash, corporate bonds, convertible bonds and equities.

Comet2 can apply controls against any eligible asset, based on instrument type, index, issue rating, quality of underlying security, market, issuer, price, coupon and days to maturity. Concentration limits can also be applied to manage collateral concentration that is based on a portfolio percentage or absolute value.

How the product works:

To benefit from the PFCM product, the Deposit Bank needs to enter into (1) a Collateral Pledge and Control Agreement

with the Municipal Entity and JPMorgan Chase Bank, N.A. as Collateral Agent, (2) a Securities Custody Agreement with JPMorgan Chase Bank, N.A. as custodian, (3) a Comet2 Technology Agreement, if chosen, and (4) an Electronic Service Level Agreement.

JPMorgan safeguards all collateral pledged by the Deposit Bank in a custodial account established for the benefit of the Municipal Entity, and on a daily basis:

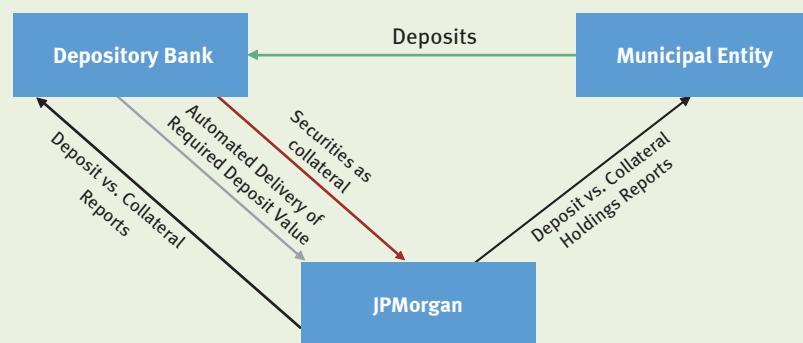
- Tests “eligibility” as defined in the Collateral Pledge and Control Agreement
- Determines valuation percentages
- Receives “eligible” securities pledged to the Municipal Entity
- Marks-to-Market the pledged collateral
- Issues shortfall notices as necessary
- Matches collateral to deposit liability information provided by Deposit Bank

- Settles pledged securities, substitutions and excess collateral
- Provides transaction reporting and monthly valuation reporting
- Delivers custody and collateral deposits to Deposit Bank
- Delivers collateral valuation reports to Municipal Entity
- Services assets of pledged collateral

A market leader in collateral management

JPMorgan’s Collateral Management group, part of the Worldwide Securities Services division of JPMorgan Chase Bank, N.A., has long been recognized as an innovator in the field of collateral management services, offering dedicated services and resources to meet various specialized client needs. The group currently manages in excess of \$1 trillion in total collateral management balances.

Public Funds Deposit Flow



- Eligibility testing
- Auto allocation of collateral to deposits — Comet2
- Reporting
- Securities custodian
- Collateral allocation ranking